



HF 2454 – Beginning Farmer Tax Credit (LSB 5548HZ.1)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.iowa.gov)
Fiscal Note Version – As amended and passed by the House

Description

House File 2454 extends the carryforward provision for tax credits in the Beginning Farmer Tax Credit Program. These tax credits include the Agricultural Assets Transfer Tax Credit and the Custom Farming Contract Tax Credit.

The tax credits are nonrefundable and have a five-year carryforward period for any credits in excess of the taxpayer's tax liability for the year. This legislation proposes to extend the carryforward period to 10 years for awards issued after specified dates. The increased carryforward period applies retroactively.

Background

The two tax credits that make up the Beginning Farmer Tax Credit Program are limited to no more than a total of \$12.0 million in any year. Effective December 31, 2017, current law provides for the reinstatement of a previous \$6.0 million annual limit. Current law repeals the Custom Farming Contract Tax Credit effective December 31, 2017.

Assumptions

- The \$12.0 million in annual tax credits available will be utilized each year.
- Beginning in calendar year 2018, the \$6.0 million annual limit will be fully utilized.
- Under the current five-year carryforward provisions, it is assumed 27.7% of credit awards will not be claimed due to insufficient tax liability. With the extension to a 10-year carryforward, it is assumed the percentage expiring unclaimed is 7.7%.
- Based on historical redemptions of these credits, the credit redemption schedule for credits award each year is assumed to be:
 - Year 1 = 32.0%
 - Year 2 = 18.5%
 - Year 3 = 7.7%
 - Year 4 = 6.0%
 - Year 5 = 4.1%
 - Years 6 through 11 = 4.0%
 - Unclaimed = 7.7%
- Beginning Farmer Tax Credits reduce the State income taxes owed by taxpayers and also reduce the yield of the local option income surtax for schools. Statewide, the surtax yield is 3.5% of State income tax liability.

Fiscal Impact

The extension of the carryforward periods for unused credits awarded under the Beginning Farmer Tax Credit Program is projected to reduce net General Fund revenue beginning in FY 2015, in the annual amounts displayed in the following table.

Beginning Farm Tax Credit Changes			
State General Fund Revenue Impact			
In millions			
	Revenue Reduction		Revenue Reduction
FY 2015	\$ -0.1	FY 2023	\$ -2.2
FY 2016	-0.2	FY 2024	-2.4
FY 2017	-0.4	FY 2025	-2.2
FY 2018	-0.7	FY 2026	-1.9
FY 2019	-0.9	FY 2027	-1.7
FY 2020	-1.3	FY 2028	-1.4
FY 2021	-1.7	FY 2029	-1.2
FY 2022	-1.9	FY 2030	0.0

The carryforward extension will also reduce the amount of revenue raised by the local option income surtax for schools. The reduction is projected to range from \$3,500 in FY 2015 to \$84,000 in FY 2024.

Source

Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
